

DRAFT



LOSS TRUST FUND BOARD REGULAR MEETING
Large Conference Room
7447 E. Indian School, Suite 300
Scottsdale, AZ 85251
Tuesday, November 16, 2004 at 2:00 p.m.

MINUTES

PRESENT: David Bresnahan
William Chamberlain
Barbara Gatlin

ABSENT: Tom Hartley (excused)
James Hickok (excused)

STAFF: Craig Clifford, Financial Services General Manager
Neal Shearer, Human Resources General Manager
Myron Kuklok, Risk Management Director
Paul McKee, Risk Services Manager
Joe Mardeusz, Senior Benefits Analyst
Ricka Hughes, Administrative Secretary
Cyndi Coniam, Human Resources Manager (arrived at 3:00 p.m.)

CALL TO ORDER

Mr. Kuklok called the regular meeting of the Loss Trust Fund Board to order at 2:00 p.m., noting a quorum with three of the five Board members present.

ROLL CALL

Those members were present as indicated above. Mr. Kuklok introduced Ms. Gatlin, the newly elected Board member, to the group.

Mr. Kuklok also advised the Board members in attendance that Mr. Hartley was called out of town at the last minute and was unable to attend but was available by telephone, if necessary. Mr. Hickok had previously notified Mr. Kuklok that he would not be available to attend the meeting as scheduled.

OLD BUSINESS

REVIEW OF NOVEMBER 13, 2003 MEETING MINUTES:

Mr. Kuklok provided the Board members with copies of the November 13, 2003 meeting minutes. Ms. Gatlin did not have an opportunity to review the minutes prior to this meeting. Mr. Bresnahan and Mr. Chamberlain were previously provided copies. The November 13, 2003 meeting minutes were not officially voted on or approved by the Board at this meeting, even though Mr. Bresnahan stated he did not have any issues with the minutes as drafted.

NEW BUSINESS

A. INTERNAL AUDIT DISCUSSION:

Mr. Kuklok provided the Board with a white paper on an internal audit that was recently conducted regarding Self-Insured Medical and Dental Plans. The audit determined the Loss Trust Fund Board is the funding vehicle for the Self-Insured Medical and Dental Plans. Therefore, the audit recommended the following for this Board:

- Proper public posting of the Loss Trust Fund Board meetings
- Term limits for Loss Trust Fund Board members
- Elect a Chair and Vice Chair

Mr. Kuklok stated the Scottsdale Revised Code limits Board and Commission members to terms of no more than three years. However, the present Board members will be grandfathered with their current terms. The Board members' current terms are:

- | | |
|-----------------------|------------------|
| • David Bresnahan | through 10/7/08 |
| • William Chamberlain | through 10/30/05 |
| • Barbara Gatlin | through 10/18/07 |
| • James Hickok | through 10/30/05 |
| • Tom Hartley | through 4/1/07 |

After expiration, all Board members terms will be for three years. None of the current Board members will be eligible for a second three-year term unless they sit out for a year between terms.

Mr. Clifford mentioned this Board has historically met on an unofficial basis. However, the audit also recommends adopting bylaws and electing officers. Bylaws, similar to other Board and Commission bylaws, have been drafted for adoption. These bylaws can be modified, as necessary, to be more tailored to the specific needs of this Board.

Mr. Kuklok previously distributed copies of the Bylaws to the Board members for review. He briefly went over some highlights of the Bylaws:

- Section 2.2 Elections. Every January, each Board and Commission is required to elect a Chair and Vice Chair. Therefore, a meeting will need to be called (either in person or telephonically) sometime in January 2005 to comply with this section of the Bylaws and Scottsdale Revised Code. This requirement is also mentioned in Section 3.1 of the Bylaws.
- Section 3.8 Meeting Agendas. The Board may only discuss items listed on the posted agenda. Mr. Shearer explained items are added to the agenda only if action is needed. The agenda should be specific for public clarity on action item(s).
- Section 5.1 Bylaws Amendment Procedure. A quorum of affirmative votes is needed to amend the Bylaws. A quorum requires a minimum of three Board members present at the meeting.
- Section 5.2 Written Communications. Mr. Kuklok will be working extensively with the Chair in preparing future agendas, Bylaws changes, Letters of Recommendation to the City Council, etc.

B. ADOPTION OF BYLAWS:

On motion made by Mr. Chamberlain and seconded by Mr. Bresnahan, the Board approved the Bylaws as presented. All members present affirmatively voted to approve the Bylaws.

C. ELECT CHAIR AND VICE CHAIR:

Mr. Bresnahan suggested Mr. Chamberlain be elected Chairman due to his experience serving on other Boards and Commissions. All Board members present affirmatively voted to elect Mr. Chamberlain as Chairman until January 2005.

After brief discussion, Ms. Gatlin agreed to be Vice Chair. **On motion made by Chairman Chamberlain and seconded by Mr. Bresnahan, Ms. Gatlin was elected Vice Chair until January 2005.**

D. PROPERTY-CASUALTY DISCUSSION:

Mr. Bresnahan expressed his concern about the City of Scottsdale's insurance broker agreement with Marsh USA. Mr. Kuklok explained that contingent commissions for insurance agents/brokers at all levels has been a longstanding common practice in the industry. The question mark has been brokers' disclosure of proprietary information. Mr. Kuklok stated large accounts needing global expertise like the City of Scottsdale do not have any other options because all the brokers have been engaging in similar practices. Mr. Kuklok assured Mr. Bresnahan that the City is not involved in the Marsh business units that have been, to date, mentioned in any of the probes. Mr. Bresnahan suggested the City deal directly with the insurance carriers instead of using a broker.

Chairman Chamberlain requested an item be added to the January 2005 meeting agenda to discuss doing a possible Request for Proposal or advertising for bids from various brokers for the City's insurance renewals. Mr. Clifford suggested the City ask the broker to provide bids or quotes on the layers of excess coverage, and require more disclosure with the bids/quotes they get from insurers.

Mr. Kuklok then updated the Board with the following information contained in the *2003 Risk Management Annual Report*:

- Cost of Risk – A crucial benchmark for all public entities. The goal is to keep costs less than 2% of budget for incurred claims. This is money out the door.

The City has been successful in keeping costs down, with only one year going over the 2% benchmark. The City has a 1.81% average for a six-year period, which is fairly good considering the City has no governmental tort immunity.

Mr. Clifford mentioned that, even though the trend line appears to be up slightly, the trend is actually better than depicted because the City's budget has been flat during this same time while the City has taken on more services.

- Six-Year Overall Loss Performance – Mr. Kuklok explained the City's loss performance by line of coverage:
 - General Liability: Frequency – favorable; Value – favorable

Mr. Bresnahan questioned why the City has improved its loss performance. Mr. Kuklok said the improvement is principally because 1) the Water Department has made many infrastructure improvements; and 2) the Transportation Department has made road design improvements. Mr. McKee also added that the Police Department top staff is more proactive with loss prevention measures.

Vice Chair Gatlin asked what effect "incurred but not reported" has on the frequency figures shown in the report. Mr. Kuklok responded it has no effect. We only report what we have today.

Vice Chair Gatlin then asked if next year's report will have higher numbers. Mr. Kuklok stated it is likely because trends and other factors are taken into account. Mr. Clifford then responded by saying staff pays close attention to the figures for future planning purposes.

- Aging Schedule – Mr. Kuklok distributed an aging schedule to the Board. This is primarily Workers' Compensation loss of earning capacity cases that go back to 1985. One of the things staff is considering is possible lump sum payouts to close old Workers' Compensation cases. Mr. Bresnahan stated that this was a good idea to explore.

- Workers' Compensation: Frequency – fairly good; Value – up

Mr. Kuklok explained there were two years of very severe losses, which drove costs up. Otherwise, there is a good history.

Mr. Bresnahan asked if there was any subrogation on Workers' Compensation claims. Mr. Kuklok stated the City pursues those cases where the City has lien rights.

- Vehicle Liability: Frequency - little spike upward; Value – fairly reasonable

Mr. Kuklok stated nothing is pending right now that is of a high dollar value.

- Vehicle Physical Damage: Frequency – small problem; Value – up

Mr. Kuklok explained this is still a problem area. The claims are generally smaller in nature. Mr. Bresnahan recalled that backing incidents were the major cause of these types of claims. Mr. McKee stated backing incidences account for 25% to 30% of all cases. He also mentioned the police department is installing voice activated backing devices on all patrol vehicles. Mr. Kuklok mentioned these types of cases are being taken seriously and addressed internally, which is having a positive impact on the numbers. Mr. McKee then mentioned Risk Management is also putting police department patrol staff through Smith driver training, which was a previous recommendation by the Loss Trust Fund Board.

- Property: Mr. Bresnahan questioned the recent cost activity in this area. Mr. Kuklok stated this was the result of an electrical accident and an explosion but, generally, there is not much activity in this area so property is not closely measured.

- Total All Lines: The trend is slightly down, which is good.

- Action Plans – Mr. Kuklok explained the sections of the action plans for all departments for the coming year.

Chairman Chamberlain asked what causes employee training injuries. Mr. McKee stated older employees generally are injured more during training exercises, even though steps have been taken to minimize injuries. However, the physical demands placed on employees performing some of the training exercises results in injury.

Mr. Kuklok suggested that perhaps this is an item that should be added to the January 2005 agenda to address with the police chief.

Mr. Shearer mentioned that the police will be required to have annual physicals once the fire department comes on board. Both these areas deal with inherently dangerous situations so the training is likely to potentially injure these employees more than others. Mr. McKee wants Risk Management to be more visible in police training.

Mr. McKee provided the Board a handout entitled "Safety Program Highlights". Some of the areas Risk Management staff are working on:

- specialty training
- on-line training
- use of Scottsdale University to track training
- use intranet to disseminate safety information
- publish and distribute new safety rules booklet
- meet with individual departments and sign off on action plans

Mr. Bresnahan suggested Risk Management do something to publicly recognize those individuals and/or departments who complete the items in their action plans. Mr. McKee acknowledged he will do more of this.

Vice Chair Gatlin asked if more areas are going to be devoting more staff to safety. Mr. Kuklok answered saying Risk has really been concentrating on the police department, but is slowly working towards each area having safety officers. Discussion continued about creating a public safety officer position for both the fire and police departments.

- Loss Trust Fund Condition – Mr. Kuklok then explained the Property-Casualty portion of the Loss Trust Fund:

Based on a 90% confidence level, the balance as of June 30, 2004 was \$12.8 Million. The actuarial report, at a 90% confidence level, indicated the Fund should be \$13.3 Million, so the Fund is a little behind. This was due to a one-time case reserve increase adjustment. However, the shortage will likely be made up next year.

Based on a 55% confidence level, the Loss Trust Fund has a \$12.9 Million balance, with a loss value at the 55% confidence level of \$9.2 Million. That means, at this confidence level, the Fund is overfunded \$3.7 Million.

For fiscal year property-casualty actual paid claims, the five-year average is \$2.8 Million. With the balance that exists given this experience, there is about five years of cash available for funding claims.

Overall, the Fund is well funded on the Property-Casualty side.

E. GROUP HEALTH AND DENTAL DISCUSSION:

Mr. Mardeusz started by providing background about the programs. He explained that, effective January 1, 2004, the City implemented a program using the Mayo and Aetna networks for three completely self-insured health plans. The City also has one self-insured dental plan. Based on experience through July 1, 2004, things look positive going completely self-insured on the medical side.

Mr. Mardeusz next explained what stop-loss coverage is and how the City has utilized it for its Health and Dental programs. Based on a recommendation from last year's Loss Trust Fund Board, the City aligned its benefits programs to a fiscal year from calendar year. This will allow the renewals to take place on July 1, 2005.

Chairman Chamberlain inquired if the City has the option of getting additional providers. Mr. Mardeusz stated this is limited because most insurers want exclusivity with the employee pool. The City was lucky in that it was able to get two providers that were willing to split the employee pool.

Mr. Clifford mentioned the City has already done several things and is looking very closely at the program to minimize the cost increases not only to the City but also to employees. General discussion continued.

Regarding stop-loss coverage, Mr. Mardeusz stated the City expects to pay about \$410,000 for that protection, which is a little over 4% of the total expenditures. Overall, the City has historically had really good loss experience.

Chairman Chamberlain inquired whether or not the City tracks the percentage of generic drugs. Mr. Mardeusz answered saying the City receives quarterly reports from the providers, which shows the breakdown of drugs filled. General discussion continued.

Mr. Mardeusz outlined the employee population demographics for plan enrollment. The percentages are relatively consistent with where the City has been in the past. The HMO and EPO plans are the plans most favored by employees.

Mr. Bresnahan questioned whether or not the City audits large claims. Mr. Mardeusz stated, through the contracts, the City has the option to have an external audit review the claims.

Mr. Mardeusz also outlined some of the steps the City has taken to contain costs with the self-insured plans:

- Reduce the number of plans – was five plans; now three
- Reduce the number of providers – was four providers; now two
- Move to a more flat rate (employer contribution rate) – was based on percentage basis; now a flat contribution rate regardless of plan

- Increase emphasis on education and disease management – used to not focus too much on this; now that plans are self-funded, this has become important
- Adjust co-pay/utilization fees to employees

Mr. Mardeusz mentioned the Benefits side of the Loss Trust Fund condition. Mr. Kuklok provided the Board a more in-depth explanation as to the health of the Fund relative to benefits. Mr. Clifford mentioned that next year there will be more data to better determine the actual health of the Fund. The City has done some preliminary budget estimates, ratcheting up claims by 23% (taking Fire Department into account), and some costing assumptions, the expected value of the self-insured reserve balance will be approximately \$6.4 Million. This reserve is expected to maintain this trend next year at or above 125% total value. This will be watched closely, however, as the City has more risk involved going self-insured.

Mr. Kuklok reiterated that, at the January 2005 meeting, he will confirm that IBNP (incurred but not paid) includes IBNR (incurred but not received) and RBON (received but not paid). General discussion followed.

Chairman Chamberlain noted the report states Risk Management does not require employees to participate in various training as opposed to asking. The “Goals Not Met” section of some of the department action plans mentions “asking”. He feels the word “ask” should be changed to “suggest” or some other stronger word in future action plans.

Vice Chair Gatlin asked what additional steps have been taken to address workplace safety. Mr. Kuklok responded saying money has been used specifically to improve safety in City facilities and new X-ray machines have also been purchased. Mr. Kuklok stated the City has refined its evacuation procedures as well.

The last item for discussion is the drafting of the Recommendation Letter to the City Council. Mr. Kuklok stated he will draft the letter, incorporating items from the minutes.

F. PUBLIC COMMENT:

No public comments were forthcoming.

G. ADJOURNMENT:

With no further business to come before the Board, being duly moved, the regular meeting of the Loss Trust Fund Board was adjourned at 4:05 p.m.

Respectfully submitted,

Ricka Hughes
Administrative Secretary